

PRINCETON UNIVERSITY: Woodrow Wilson School of Public and International Affairs

**WWS 543: International Trade Policy
Gene Grossman**

Spring 2009

Course Objectives

The objective of this course is to provide students with the ability to analyze policy issues related to international trade. The course will begin with an introduction to the main theories of international trade, which seek to explain why countries trade, what countries trade, and who gains and loses from trade. Next, we will discuss the instruments of trade policy, their effects on resource allocation and the political economy forces that shape the choice of trade policies.

The later parts of the course will address policy issues of current and ongoing concern, including the trends in offshoring and outsourcing, the relationship between trade and growth, the relationship between trade and the environment, and the processes of multilateral and regional trade integration.

Instructors

Gene Grossman
300 Fisher Hall, x4823
grossman@princeton.edu
Office Hours: Tue 3:15-5:00 pm or by appt.

Kunal Dagupta
B10 Fisher Hall
kdasgupt@princeton.edu
Office Hours: Tue 4-6 pm and Thurs 4-6 pm

Requirements and Grading

WWS 511c or its equivalent is a prerequisite for the course.

Course requirements:

- 4 Problem sets (25%)
- Oral and written presentation and critique of a recent research paper (25%)
- Final Examination (50%)

COURSE OUTLINE AND READING LIST

I. GLOBALIZATION IN HISTORICAL PERSPECTIVE

The Economist, Survey on “[Globalization](#)” September 27, 2001. Items 1-5, 7-8.

Richard E. Baldwin and Philippe Martin, “[Two Waves of Globalisation: Superficial Similarities and Fundamental Differences](#)” Chapter 1, pp 3-59, in H.Siebert (ed.), *Globalisation and Labour*, J.C.B. Mohr, Tübingen, 1999.

Scott Bradford and Robert Lawrence, [Has Globalization Gone Far Enough? The Costs of Fragmented Markets](#), Peterson Institute for International Economics, 2004, chs.2-3.
(Note: Online version does not allow printing.)

II. WHAT AND WHY DO COUNTRIES TRADE?

A. POTENTIAL GAINS FROM INTERNATIONAL TRADE

R. Caves, J. Frankel and R. Jones, [World Trade and Payments: An Introduction](#), 10th edition, Pearson/Addison Wesley, 2007 (henceforth CFJ) pp.13-29, 34-35.

D. Bernhofen and J. Brown, “[An empirical assessment of the comparative advantage gains from trade: Evidence from Japan](#),” [American Economic Review](#), Mar. 2005, 208-225.

B. INTER-INDUSTRY TRADE: ENDOWMENTS, TASTES, AND TECHNOLOGY

CJF, pp.59-69, 95-98, 99-103, S24-S26

C. INTRA-INDUSTRY TRADE: ECONS OF SCALE AND IMPERFECT COMPETITION

CJF, pp. 121-131

Robert C. Feenstra, “[New Evidence on the Gains from Trade](#),” [Review of World Economics](#), Dec. 2006, 1-25.

III. WHO GAINS AND WHO LOSES?

A. THE DISTRIBUTIONAL EFFECTS OF TRADE

CJF, pp. 103-106, S22-S24, 79-84

B. THE DISRIBUTIONAL EFFECTS OF OFFSHORING

Gene Grossman and Esteban Rossi-Hansberg, "[The Rise of Offshoring: It's Not Wine for Cloth Anymore](#)" The New Economic Geography: Effects and Policy Implications, Federal Reserve Bank of Kansas City, 2006.

C. TRADE AND WAGES: THE EVIDENCE

Richard Freeman, "[Are Your Wages Set in Beijing?](#)" Journal of Economic Perspectives, Summer 1995, p. 15-32.

Mary Amity and Shang-Jin Wei, "[Fear of Service Offshoring](#)," Economic Policy, April 2005, pp.309-347.

D. TRADE, INEQUALITY AND POVERTY: THE EVIDENCE

Robert Z. Lawrence, [Blue-Collar Blues: Is Trade to Blame for Rising US Income Inequality](#), Peterson Institute for International Economics, chs.2-5. (Note: Online version does not allow printing.)

Pinelopi Goldberg and Nina Pavcnik, "[Trade, Inequality and Poverty: What do We Know](#)," Brooking Trade Forum, 2004.

International Monetary Fund, "[Globalization and Inequality](#)," ch.4 in World Economic Outlook, October 2007.

IV. THE POSITIVE AND NORMATIVE THEORY OF PROTECTION

A. TRADE POLICY AND RESOURCE ALLOCATION

CJF, pp.169-177

E. Helpman and P. Krugman (henceforth HK) Trade Policy and Market Structure, MIT Press, 1989, pp.27-38, 56-58

Gary Hufbauer and Kimberly Elliot, Measuring the Costs of Protection in the United States, Institute for International Economics, 1994, ch.1,2

B. THE FIRST-BEST MONOPOLY TARIFF

CJF, pp.177-181, S27-S30

HK, pp. 12-13, 15-20.

C. TRADE POLICY AND OLIGOPOLY PROFITS

HK, pp. 49-56, 83-115, 155-168

D. THE SECOND-BEST ARGUMENT FOR PROTECTION

Jagdish Bhagwati, "[The Generalized Theory of Distortions and Welfare](#)," in J.N Bhagwati, ed., [International Trade: Selected Readings](#), 2nd ed., MIT Press, 1987.

Lael Brainard, Robert E. Litan and Nicholas Warren, "[Insuring America's Workers in a New Era of Offshoring](#)," The Brookings Institution Policy Brief #143, July 2005

E. ADMINISTERED PROTECTION

Alan Deardorff, "[Economic Perspectives on Antidumping Law](#)," in J.H. Jackson and E.A. Vermulst, eds, [Antidumping Law and Practice](#), ch.2, 1989

Thomas Prusa, "[Antidumping: A Growing Problem in International Trade](#)," [The World Economy](#), May 2005, 683-700.

Gene Grossman, "[Imports as a Cause of Injury: The Case of the U.S. Steel Industry](#)," [Journal of International Economics](#), May 1986, pp.201-222.

V. THE POLITICAL ECONOMY OF PROTECTION

D. Rodrik, "[The Political Economy of Trade Policy](#)," in G.Grossman and K.Rogoff, eds., [Handbook of International Economics](#), vol.3, North Holland, 1996.

P. Goldberg and G. Maggi, "[Protection for Sale: An Empirical Investigation](#)," [American Economic Review](#) Dec. 1999, pp. 1135-1155.

Robert E. Baldwin, R. and Christopher Magee, "[Is Trade Policy for Sale? Congressional Voting on Recent Trade Bills](#)," [Public Choice](#), Oct. 2000, pp 79–101.

VI. TRADE, GROWTH AND DYNAMIC PERFORMANCE

A. INFANT INDUSTRIES

Gene Grossman, "[Promoting New Industrial Activities](#)," O.E.C.D. Economic Studies, Spring 1990

Robert Baldwin, "[The Case Against Infant Industry Protection](#)," Journal of Political Economy, May 1969.

Douglas Irwin and Peter Klenow, "[Learning-by-Doing Spillovers in the Semiconductor Industry](#)," Journal of Political Economy Dec. 1994, 1200-1227.

Douglas Irwin, "[Did Late Nineteenth Century Tariffs Promote Infant Industries? Evidence from the Tinplate Industry](#)," Journal of Economic History June 2000, p. 335-360

B. TRADE AND GROWTH

David Dollar and Aart Kraay (2003), "[Institutions, trade, and growth: Revisiting the evidence](#)," Journal of Monetary Economics Jan. 2003, 133-162.

Juan Carlos Hallak and James Levinsohn, "[Fooling Ourselves: Evaluating the Globalization and Growth Debate](#)" NBER Working Paper 10244, January 2004.

Francisco Rodriguez and Dani Rodrik, "[Trade Policy and Economic Growth: A Skeptic's Guide to the Cross-National Evidence](#)," NBER Macroeconomics Annual 2000.

VII. TRADE AND THE ENVIRONMENT

Gene Grossman and Alan Krueger, "The Environmental Impacts of a North American Free Trade Agreement," in Peter Garber, ed., The Mexico-U.S. Free Trade Agreement, Cambridge MA: MIT Press, 1993.

Werner Antweiler, Brian R. Copeland and M. Scott Taylor, "[Is Free Trade Good for the Environment?](#)" American Economic Review, Sept. 2001, pp.877-908.

Josh Ederington, Arik Levinson, and Jenny Minier, "[Trade Liberalization and Pollution Havens](#)," BE Journals: Advances in Economic Analysis and Policy, 4(2) 2004.

VIII. ECONOMIC INTEGRATION

A. TRADE AGREEMENTS AND THE WTO

World Trade Organization, [Understanding the WTO](#), Feb. 2007, Chs.1-3.

World Trade Organization, [The GATT/WTO at 60: World Trade Report 2007](#), October 2007, Chapter II, Sections B and C.

Kyle Bagwell and Robert Staiger, [The Economics of the World Trading System](#), MIT Press 2002, ch.2

Will Martin and Aaditya Mattoo, “[The Doha Development Agenda: What’s on the Table?](#)” Policy Research Working Paper 4672.

The Economist, “[The Doha round ... and round ... and round,](#)” July 31, 2008.

Joseph Francois, “[Doha Round Failure: This is the way the round ends ...](#)” VoxEU, August 1, 2008.

B. THEORY OF CUSTOMS UNIONS

Arvind Panagariya, “[Preferential Trade Liberalization: The Traditional Theory and New Developments](#)”, [Journal of Economic Literature](#) June 2000, 287-331.

World Bank, [Trade Blocs](#), April 2000.

Jong-Wha Lee, Innvon Park and Kwanho Shin, “[Proliferating Regional Trade Agreements: Why and Whither,](#)” [The World Economy](#), Dec. 2008, 1525-1557.